Walden Green Montessori

REPORT ON FINANCIAL STATEMENTS

(with required supplementary information)

Year ended June 30, 2007

Walden Green Montessori

TABLE OF CONTENTS

This section of the Walden Green Montessori's annual financial report presents our discussion and analysis of the School's financial performance during the year ended June 30, 2007. Please read it in conjunction with the School's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Walden Green Montessori financially as a whole. The School-wide financial statements provide information about the activities of the whole School, presenting both an aggregate view of the School's finances and a longer-term view of those finances. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School's operations in more detail than the School-wide financial statements. The basic financial statements are comprised of the following elements:

Management's Discussion and Analysis (MD&A)
Basic Financial Statements
- School-wide Financial Statements
- Fund Financial Statements
- Notes to Financial Statements

Required Supplementary Information
- Budgetary Information for the General Fund

Reporting the School as a Whole—School-wide Financial Statements

One of the most important questions asked about the School is, as a whole, what is the School's Statement of Activities, which appears second in the School's financial statements. The Statement of Activities reports information on the School as a whole and its activities in a way that helps answer this question. We prepare this statement using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Activities and the Statement of Net Assets report the School's net assets—the difference between assets and liabilities—as one way to measure the School's financial health or financial position. Over time, increases or decreases in the School's net assets—as reported in the Statement of Activities—are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School's operating results. However, the School's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School, which encompass all of the School's services, including instruction and support services. Unrestricted state aid (foundation allowance revenue) and state and federal grants finance most of these activities.

Reporting the School's Most Significant Funds—Fund Financial Statements

The School's fund financial statements provide detailed information about the most significant funds—not the School as a whole. Walden Green used three funds in the current year – a General Fund, Capital Projects Fund, and a Debt Service Fund. The funds use the following accounting approach:

Governmental funds—All of the School's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation.

The School as a Whole

Recall that the Statement of Net Assets provides the perspective of the School as a whole. The following table provides a summary of the School's net assets as of June 30, 2007 and 2006.

Net Assets	2007 Governmental Activities	2006 Governmental Activities
Assets		
Current and Other Assets	$ 996,471	$ 4,381,477
Capital Assets	3,763,031	393,231
Total Assets	4,759,502	4,774,708
Liabilities		
Current Liabilities	287,999	100,204
Long-term Liabilities	4,184,256	4,432,534
Total Liabilities	4,472,255	4,532,738
Net Assets		
Invested in Capital Assets - Net to Related Debt	258,594	79,777
Unrestricted	28,653	162,193
Total Net Assets	$ 287,247	$ 241,970

The above analysis focuses on net assets. The total assets decreased by $15,206. Capital assets increased and cash and investments decreased due to completion of the new school. Long-term liabilities decreased due to the sale of the old school and the pay off of the related debt. The net assets are comprised of three components. Invested in capital assets, net of related debt represent the Schools net assets invested in buildings and equipment less the related debt. The remaining amount of net assets of negative $28,653 was unrestricted.

The $28,653 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net asset balance is used to provide working capital and cash flow requirements as well as providing for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School as a whole are reported in the Statement of Activities, which shows the changes in net assets for fiscal year 2007.

Statement of Activities

	2007 Governmental Activities	2006 Governmental Activities
Functions/Programs		
Program Revenue		
Charges for Services	$ 21,883	$ 17,535
Operating Grants	48,015	21,743
Capital Contributions	139,847	-
General Revenues		
Grants and Contributions Not Restricted to Specific Programs	1,125,297	845,570
Unrestricted Investment Earnings	158,906	3,522
Miscellaneous	58,420	17,370
Total Revenues	1,552,368	905,740
Expenses		
Instruction	759,737	598,166
Support Services	407,594	292,164
Interest of Long-term Debt	285,074	64,339
Unallocated Depreciation	54,686	26,445
Total Governmental Activities	1,507,091	981,114
Change in Net Assets	45,277	(75,374)
Net Assets - beginning of year	241,970	317,344
Net Assets - end of year	$ 287,247	$ 241,970

Change in Net Assets

The School experienced an increase in net assets of $45,277. A key reason for this increase is due to the gain related to the sale of the old school building. Instruction expenses increased for salaries, benefits and training. Because of increased enrollment, middle school programs were expanded, elementary classrooms were added and new staff were hired. These increases were partially offset by an increase in state aid income.

As discussed above, the net cost shows the financial burden that was placed on the School by each of these functions. Since unrestricted state aid constitutes the vast majority of district operating revenue sources, the Board of Directors and Administration must annually evaluate the needs of the School and balance those needs with state-prescribed available unrestricted resources.

The School's Funds

As we noted earlier, the School uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School is being held accountable for the resources taxpayers and others provide to it and may provide more insight into the School's overall financial health.

In the General Fund, our principal operating fund, the fund balance decreased $240,867 to $37,597. The primary reasons for the decrease are as follows:

- Transfers to the Capital Projects fund for expenditures related to construction of new facility
- Expenditures of equipment to outfit the new building
- Increases in staff salaries and benefits for additional staff hired

The Capital Projects Fund was established to track expenses relating to the building project.

The Debt Service fund was created in the current year to set aside monies for future interest and principle payments.

General Fund Budgetary Highlights

Over the course of the year, the School revises its budget as it attempts to deal with the unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. (A schedule showing the School's original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information of these financial statements).

There were revisions made to the 2006-2007 General Fund original budget. State source revenues were decreased due by $80,000 due to the school having 10 less students than expected for the 2006-2007 school year. The instruction budget was increased by $38,500 due to an increase in cost related to the school adding an assistant. Plans to hire additional staff in the central office caused the support services budget to be increased by $73,500. Other categories were adjusted to match anticipated expenditures as the year progressed.

The budget to actual revenue variations amounts are primarily the result of actual special education revenues being reclassified to comply with State of Michigan requirements. Classifications used with the original budget were different than those used for the State of Michigan requirement. Support services were lower than anticipated due to School not hiring the additional person. Incoming and outgoing transfers and other transactions were both much higher than budgeted amounts. This is a result of the School not properly budgeting for many of the capital transactions and the transfers.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2007, the School had $3,763,031 (after accumulated depreciation) invested in a broad range of capital assets, including land, buildings, furniture and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of $3,369,800 from last year. This large increase is due to the purchase and equipping of the new school.

	2007	2006
Land	$ 319,638	$ 25,000
Construction in progress	-	77,240
Building and improvements	3,138,691	281,021
Furniture and equipment	304,702	9,970
	$ 3,763,031	$ 393,231

We present more detailed information about our capital assets in the notes to the financial statements.

Long-term Debt

At June 30, 2007, the School had $4,135,187 in bonds relating to building construction.

During the year the School sold its old building which provided the cash to completely pay off the debt related to that building.

The School also acquired equipment through a capital lease. The obligation related to the equipment has been recorded as long-term debt approximating $69,000 as of June 30, 2007.

Economic Factors and Next Year's Budget

Our appointed officials and administration considered many factors when setting the School's 2008 fiscal year budget. One of the most important factors affecting the budget is our student count. The fiscal year 2008 budget anticipates an increase in enrollment of approximately 20 students. The State foundation allowance is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2007 fiscal year is 25 percent and 75 percent of the February 2007 and September 2007 student counts, respectively. The original 2008 budget was adopted in June 2007 and anticipated an increase in fund balance of $66,000.

Approximately 97 percent of total General Fund revenue comes from the state foundation grant and categorical payments. As a result, direct funding is heavily dependent on the state's ability to fund local school operations. Based on early enrollment data at the start of the 2006-2007 school year, we anticipate that the fall student count will be near the estimates used in creating the fiscal 2007 budget. Once the final student count and related per pupil funding is validated, state law requires the School to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School's revenue is heavily dependent on state funding and the health of the state's School Aid Fund, the actual revenue received depends on the state's ability to collect revenues to fund its appropriation to Schools. The state periodically holds a revenue-estimating conference to estimate revenues.

Contacting the School Financial Management

The financial report is designed to provide a general overview of the School's finances for all those interested in the School's finances. If you have any questions about this report or need additional information, contact Walden Green Montessori, 17339 Roosevelt Road, Spring Lake, Michigan 49456.

BRICKLEY DELONG
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

November 21, 2007

Board of Directors
Walden Green Montessori
Spring Lake, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Walden Green Montessori (the School) as of and for the year ended June 30, 2007, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Walden Green Montessori's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Walden Green Montessori, as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2007, on our consideration of Walden Green Montessori's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i - vi and page 21, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Walden Green Montessori

STATEMENT OF NET ASSETS

June 30, 2007

		Governmental activities
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	83,367
Investments		413,949
Receivables		3,985
Due from other governmental units		203,850
Total current assets		705,151
NONCURRENT ASSETS		
Capital assets, net		
Nondepreciable		319,638
Depreciable		3,443,393
Bond issuance costs, net		291,320
Total noncurrent assets		4,054,351
Total assets		4,759,502
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities		143,233
Line of credit		100,000
Due to other governmental units		24,466
Bonds and other obligations, due within one year		12,156
Total current liabilities		279,855
NONCURRENT LIABILITIES		
Bonds and other obligations, less amounts due within one year		4,192,400
Total liabilities		4,472,255
NET ASSETS		
Invested in capital assets, net of related debt		258,594
Unrestricted		28,653
Total net assets	$	287,247

The accompanying notes are an integral part of this statement.

Walden Green Montessori
STATEMENT OF ACTIVITIES
For the year ended June 30, 2007

		Program Revenue			Net (Expense) Revenue and Changes in Net Assets
Functions/Programs	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities
Governmental activities					
Instruction	$ 759,737	$ 21,883	$ 48,015	$ 139,847	$ (549,992)
Support services	407,594	-	-	-	(407,594)
Interest on long-term debt	285,074	-	-	-	(285,074)
Unallocated depreciation and amortization	54,686	-	-	-	(54,686)
Total governmental activities	$ 1,507,091	$ 21,883	$ 48,015	$ 139,847	(1,297,346)
General revenues					
Grants and contributions not restricted to specific programs					1,125,297
Unrestricted investment earnings					158,906
Gain on sale of capital assets					58,420
Total general revenues					1,342,623
Change in net assets					45,277
Net assets at July 1, 2006					241,970
Net assets at June 30, 2007					$ 287,247

The accompanying notes are an integral part of this statement.

Walden Green Montessori
BALANCE SHEET
Governmental Funds
June 30, 2007

	General Fund	Capital Projects Fund	Debt Service Fund	Total governmental funds
ASSETS				
Cash and cash equivalents	$ 83,367	$ -	$ -	$ 83,367
Investments	-	-	413,949	413,949
Receivables	3,985	-	-	3,985
Due from other governmental units	203,850	-	-	203,850
Due from other funds	-	-	45,500	45,500
Total assets	$ 291,202	$ -	$ 459,449	$ 750,651
LIABILITIES AND FUND BALANCES				
Liabilities				
Line of credit	$ 100,000	$ -	$ -	$ 100,000
Accounts payable	63,776	-	-	63,776
Accrued liabilities	19,863	-	-	19,863
Due to other governmental units	24,466	-	-	24,466
Due to other funds	45,500	-	-	45,500
Total liabilities	253,605	-	-	253,605
Fund balances				
Reserved for debt service	-	-	459,449	459,449
Unreserved	37,597	-	-	37,597
Total fund balances	37,597	-	459,449	497,046
Total liabilities and fund balances	$ 291,202	$ -	$ 459,449	$ 750,651

The accompanying notes are an integral part of this statement.

Walden Green Montessori
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2007

Total fund balance—governmental funds		$ 497,046
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and are not reported in the governmental funds.		
Cost of capital assets	$ 3,811,954	
Accumulated depreciation	(48,923)	3,763,031
Mortgage and bond issuance costs are not capitalized and amortized in the governmental funds.		
Bond issuance costs	303,108	
Accumulated amortization	(11,788)	291,320
Accrued interest in governmental activities is not reported in the governmental funds.		(59,594)
Long-term liabilities in governmental activities are not due and payable in the current period and are not reported in the governmental funds.		
Bonds and notes payable		(4,204,556)
Net assets of governmental activities in the Statement of Net Assets		$ 287,247

The accompanying notes are an integral part of this statement.

Walden Green Montessori

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES

Governmental Funds

For the year ended June 30, 2007

	General Fund	Capital Projects Fund	Debt Service Fund	Total governmental funds
REVENUES				
Local sources				
Program fees	$ 21,883	$ -	$ -	$ 21,883
Contributions	-	139,847	-	139,847
Investment earnings	-	136,811	22,095	158,906
Total local sources	21,883	276,658	22,095	320,636
State sources	1,125,297	-	-	1,125,297
Federal sources	19,378	-	-	19,378
Total revenues	1,166,558	276,658	22,095	1,465,311
EXPENDITURES				
Instruction	759,737	-	-	759,737
Support services	391,005	-	-	391,005
Debt Service				
Principal	317,869	-	-	317,869
Interest and other charges	25,931	-	221,695	247,626
Capital Projects	73,807	3,651,305	-	3,725,112
Total expenditures	1,568,349	3,651,305	221,695	5,441,349
Deficiency of revenues under expenditures	(401,791)	(3,374,647)	(199,600)	(3,976,038)
OTHER FINANCING SOURCES (USES)				
Transfers from other governmental units and other transactions	28,637	-	-	28,637
Loan proceeds	70,989	-	-	70,989
Proceeds from sale of capital assets	344,770	-	-	344,770
Transfers in	-	33,222	659,049	692,271
Transfers out	(283,472)	(408,799)	-	(692,271)
Total other financing sources (uses)	160,924	(375,577)	659,049	444,396
Net change in fund balances	(240,867)	(3,750,224)	459,449	(3,531,642)
Fund balances at July 1, 2006	278,464	3,750,224	-	4,028,688
Fund balances at June 30, 2007	$ 37,597	$ -	$ 459,449	$ 497,046

The accompanying notes are an integral part of this statement.

Walden Green Montessori

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2007

Net change in fund balances—total governmental funds		$ (3,531,642)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities these costs are depreciated and amortized over their estimated useful lives, respectively.		
Depreciation and amortization expense	$ (65,121)	
Capital outlay	3,718,522	3,653,401
Governmental funds report the entire proceeds from the sale of capital assets as revenue, but the Statement of Activities reports only gain or loss on the sale of capital assets.		(296,019)
Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term obligations in the Statement of Net Assets.		(70,989)
Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		317,869
Interest expense on long-term obligations is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.		(27,343)
Change in net assets of governmental activities		$ 45,277

The accompanying notes are an integral part of this statement.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Walden Green Montessori (School) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School's accounting policies are described below.

Reporting Entity
The School is governed by an appointed five-member Board of Directors (Board), which has responsibility and control over all activities related to public school education within the School. The School receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

School-wide and Fund Financial Statements

School-wide Financial Statements – The primary focus of school-wide financial statements is on the sustainability of the School as an entity and the change in the School's net assets resulting from the current year's activities. The school-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these statements. The school-wide financial statements categorize primary activities as either governmental or business type. All of the School's activities are classified as governmental activities.

In the school-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The school-wide Statement of Activities reports both the gross and net cost of each of the School's functions. The functions are also supported by general revenues (certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School does not allocate indirect costs.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

School-wide and Fund Financial Statements—Continued

Fund financial statements – Fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental funds – Governmental funds are those funds through which most School functions typically are financed. The acquisition, use and balances of the School's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School reports the following major governmental funds:

- The *General Fund* is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

- The *Capital Projects Fund* accounts for the use of the proceeds from the 2006 Limited Obligation Revenue Bonds. The Bonds were issued on May 1, 2006 and may be used for the construction of a school building.

- The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method
The school-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method
Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Basis of Presentation—Continued

State Revenue
The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to schools based on information supplied by the schools. For the year ended June 30, 2007, the Foundation allowance was based on pupil membership counts taken in February and September of 2006.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30, 2007 is reported as due from other governmental units.

The School also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Other Accounting Policies

Deposit and Investments
Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

The School reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School intends to hold the investment until maturity.

State statutes authorize the School to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School's deposits and investments are in accordance with statutory authority.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Interfund Receivables and Payables
Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported at “due to/from other funds”. The School had no advances between funds.

Prepaid Items
Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Restricted Assets
Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

Capital Assets
Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School as assets with an initial cost of more than $1,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Building and improvements	10-50 years
Furniture and other equipment	3-10 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Deferred Revenue
Deferred revenue arises when assets are recorded before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Long-term Obligations
In the school-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets In School-wide Financial Statements
Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.

- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

Fund Equity In Fund Financial Statements
The School reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the General Fund. All annual budgets lapse at year end.

The School follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The President submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.

2. Public hearings are conducted to obtain constituent comments.

3. Prior to July 1, the budget is legally adopted by Board of Directors resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.

4. Formal budgetary integration is employed as a management control device during the year.

5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2007. The School does not consider these amendments to be significant.

Excess of Expenditures Over Appropriations

For the year ended June 30, 2007, expenditures exceeded appropriations in outgoing transfers and other transactions by $647,579.

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2007, the School had the following investments:

Investment Type		Fair value	Weighted average maturity (Days)	Moody's	Percent
Money market mutual fund	$	220,702	30	Aaa	53.3 %
Federal agency bonds		193,247	140	Aaa	46.7
Total fair value	$	413,949			100.0 %
Portfolio weighted average maturity			81		

Interest rate risk. The School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School has no investment policy that would further limit its investment choices.

Concentration of credit risk. The School does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5 percent of the School's investments are in federal agency bonds issued by the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association. These investments are 17.95 percent and 28.73 percent, respectively, of the School's investments.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School's deposits may not be returned to it. As of June 30, 2007, $7,396 of the School's bank balance of $107,396 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The School does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The School is not authorized to invest in investments which have this type of risk.

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	$ 25,000	$ 319,638	$ 25,000	$ 319,638
Construction in progress	77,240	-	77,240	-
Total capital assets, not being depreciated	102,240	319,638	102,240	319,638
Capital assets, being depreciated:				
Buildings and improvements	396,735	3,157,322	390,847	3,163,210
Furniture and equipment	52,849	318,802	42,545	329,106
Total capital assets, being depreciated	449,584	3,476,124	433,392	3,492,316
Less accumulated depreciation:				
Buildings and improvements	115,714	30,924	122,119	24,519
Furniture and equipment	42,879	21,779	40,254	24,404
Total accumulated depreciation	158,593	52,703	162,373	48,923
Total capital assets, being depreciated, net	290,991	3,423,421	271,019	3,443,393
Capital assets, net	$ 393,231	$ 3,743,059	$ 373,259	$ 3,763,031

Depreciation
Depreciation expense has been charged as unallocated depreciation.

NOTE E—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Bond issuance costs	$ 303,108	$ -	$ -	$ 303,108
Less accumulated amortization	1,684	10,104	-	11,788
Bond issuance costs, net	$ 301,424	$ (10,104)	$ -	$ 291,320

Amortization
Amortization expense has been charged as unallocated amortization.

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2007 is as follows:

Due to/from other funds:

Receivable fund	Payable fund	Amount
Debt Service Fund	General Fund	$ 45,500

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers
The General Fund transferred $33,222 to the Capital Projects Fund to finance the additional costs to construct the new school that were not provided for by the Bond.

The General Fund and Capital Projects Fund transferred $250,250 and $408,799, respectively, to the Debt Service Fund to set aside monies for future debt payments.

NOTE G—NOTE PAYABLE TO BANK

The Organization has an unsecured line of credit with borrowings limited to $100,000 and interest payable monthly at the prime rate expiring April 2008. The balance outstanding was $100,000 as of June 30, 2007.

NOTE H—LONG-TERM OBLIGATIONS

The School issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds and notes are direct obligations and pledge the full faith and credit of the School.

Summary of Long-term Obligations
The following is a summary of long-term obligations activity for the School for the year ended June 30, 2007:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due within one year
Governmental activities:					
Bonds	$ 4,370,000	$ -	$ -	$ 4,370,000	$ -
Less issuance discount	(242,957)	-	(8,144)	(234,813)	(8,144)
Mortgage	316,249	-	316,249	-	-
Capital leases	-	70,989	1,620	69,369	20,300
	$ 4,443,292	$ 70,989	$ 309,725	$ 4,204,556	$ 12,156

NOTE H—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

General obligation bonds consist of the following:

2006 Limited Obligation Revenue Bond payable in annual installments ranging from $35,000 to $305,000 due October 2008 to April 2036; plus interest ranging from 5% to 5.625% payable semi-annually	$ 4,370,000
Less issuance discount	(234,813)
	4,135,187
Other obligations	
Capital lease obligation payable in annual installments of $18,995 including interest of 3.83%; final payment due December 2009	52,813
Capital lease obligation payable in monthly installments of $343 including interest of 5%; final payment due December 2011	16,556
Total other obligations	69,369
	$ 4,204,556

The annual requirements of principal and interest to amortize bonded debt and capital lease obligations outstanding as of June 30, 2007 are as follows:

Year ending June 30,	Principal	Interest	Total
2008	$ 20,300	$ 241,186	$ 261,486
2009	56,133	240,353	296,486
2010	82,000	237,736	319,736
2011	73,908	233,833	307,741
2012	77,028	230,155	307,183
2013-2017	450,000	1,089,375	1,539,375
2018-2022	580,000	961,625	1,541,625
2023-2027	760,000	788,200	1,548,200
2028-2032	1,005,000	551,250	1,556,250
2033-2036	1,335,000	226,266	1,561,266
	$ 4,439,369	$ 4,799,979	$ 9,239,348

NOTE I—EMPLOYEE BENEFITS

Employee Retirement System – Defined Benefit Plan

Plan description – The School contributes to the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPSERS, for the School's single employee. The MPSERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to or calling:

Office of Retirement Systems
Michigan Public School Employees Retirement System
P.O. Box 30171
Lansing Michigan 48909
1-800-381-5111

Funding policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 and December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first $5,000; 3.6 percent of $5,001 through $15,000; 4.3 percent of all wages over $15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2007 was 17.74 percent of payroll. The contribution requirements of plan members and the School are established and may be amended by the MPSERS Board of Trustees. The School contributions to MPSERS for the year ended June 30, 2007, 2006, and 2005 were approximately $13,700, $13,000, and $10,600, respectively, and were equal to the required contribution for those years.

The School is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other post-employment benefits – Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

NOTE J—COMMITMENTS AND CONTINGENCIES

Commitments

- **Operating leases** – The School conducted a portion of its operations in facilities under a lease agreement which expired June 30, 2007. The lease required monthly rentals of $1,000 and payment of certain occupancy costs by the lessee. Rent expense for the year ended June 30, 2007 was $8,000.

Contingencies

- **Grant Programs** – The School participates in grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

NOTE K—OTHER INFORMATION

Economic Dependence – Prior years revision of the State of Michigan (State) school aid formula for local public schools significantly increased State school aid, and the change in property tax laws significantly decreased local property tax revenues. As a result, State school aid represents approximately 96 percent of General Fund revenues.

Risk Management –The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School carries commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2007 or any of the prior three years.

Leased Employees

Management Services Agreement

The School leases its employees, with the exception of one employee, from an employee leasing company (Company) and is no longer required to have these School employees covered by MPSERS. Expenditures for employee costs such as salaries and wages, payroll taxes, and benefits under the management services agreements have been recorded and reported in conformance with the State of Michigan's standard chart of accounts.

Defined Contribution Plan

The School maintains a defined contribution plan covering substantially all of the leased employees. In a defined contribution plan, benefits depend solely on amounts contributed to the Plan plus investment earnings. Contributions and costs are determined as 8 percent of each covered employee's salary. For the year ended June 30, 2007, the contributions totaled approximately $26,800.

NOTE L—SUBSEQUENT EVENT

State Aid Anticipation Note

In August 2007, the School received the proceeds of a $200,000 State of Michigan (State) school aid anticipation note payable. The note payable is not subject to redemption prior to its maturity in August 2008 and bears interest at the rate of 4.79 percent per annum. The School pledged for payment of the note payable, the amount of State school aid to be received plus the full faith, credit, and resources of the School.

REQUIRED SUPPLEMENTARY INFORMATION

Walden Green Montessori
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended June 30, 2007

	Budgeted amounts			Variance with final budget-positive (negative)
	Original	Final	Actual	
REVENUES				
Local sources	$ 40,000	$ 87,000	$ 21,883	$ (65,117)
State sources	1,232,000	1,152,000	1,125,297	(26,703)
Federal sources	-	-	19,378	19,378
Incoming transfers and other transactions	40,000	50,000	444,396	394,396
Total revenues	1,312,000	1,289,000	1,610,954	321,954
EXPENDITURES				
Instruction				
Basic instruction	678,000	707,500	708,347	(847)
Added needs	45,000	54,000	51,390	2,610
Support services				
General administration	228,000	264,500	244,594	19,906
Business	18,000	36,000	43,451	(7,451)
Operations and maintenance	101,000	120,000	102,960	17,040
Outgoing transfers and other transactions	5,000	53,500	701,079	(647,579)
Total expenditures	1,075,000	1,235,500	1,851,821	(616,321)
Excess (deficiency) of revenues over (under) expenditures	$ 237,000	$ 53,500	(240,867)	$ (294,367)
Fund balance at July 1, 2006			278,464	
Fund balance at June 30, 2007			$ 37,597	

BRICKLEY DELONG
CERTIFIED PUBLIC ACCOUNTANTS

November 21, 2007

Board of Directors
Walden Green Montessori
Spring Lake, Michigan

In planning and performing our audit of the governmental activities, each major fund and the aggregate remaining fund information of Walden Green Montessori as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Walden Green Montessori's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness Walden Green Montessori's internal control. Accordingly, we do not express an opinion on the effectiveness of Walden Green Montessori's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified and we have attached deficiencies in internal control that we consider to be significant deficiencies.

This communication is intended solely for the information and use of management, the Board of Directors, others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

SIGNIFICANT DEFICIENCIES

General

Recommendation 1: The internal controls surrounding the preparation of formal year end financial statements should be improved.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year end financial statements.

The School should review its procedures surrounding the preparation of year end financial statements to include the appointment of an individual with the requisite technical skills and experience to review the formal year end financial statements and accompanying footnotes, in relation to required disclosures in accordance with generally accepted accounting principles.

Recommendation 2: Procedures should be established to identify user access to accounting systems.

The School plans to transition to a network version of its accounting software, which will allow more than one user. Controls surrounding the access and use of such programs should be established and well documented, including the use of separate user names and passwords for all employees. In addition the School should allow only those who need access to each function should provide access to that function.

The establishment of user access procedures would limit individuals access to components of the accounting data, as authorized.

Recommendation 3: Management should consider a policy requiring off-site storage of all backup computer discs.

During our review of procedures surrounding the computer function, we noted that the computer back-up discs are not stored at an off-site location.

Implementing a policy that requires periodic off-site storage of all backup discs would reduce the possibility of essential data being lost by the School due to a disaster.

Cash

Recommendation 4: Segregation of duties within the cash receipts function should be improved.

During our review of procedures and internal controls surrounding the accounts receivabale function, we noted that one individual is responsible for entering receipts into the general ledger, preparing the deposit slips, and monthly bank reconciliations.

The School should establish procedures for receipting of cash that would segregate the following procedures: (1) preparation of the bank deposit slip, (2) recording of the transaction in QuickBooks, (3) matching of the deposit slip and the accounting records, and (4) immediate depositing in the bank. Established procedures should be well documented to help ensure compliance with the Schools fiduciary responsibilities.

Cash—Continued

Recommendation 5: The addition of a new employee provides an opportunity to further segregate duties related to the disbursements cycle.

During our review of procedures and internal controls surrounding the accounts payable function, we noted the following: One individual maintains the responsibilities of receiving approved vendor invoices, posting such invoices to the accounts payable ledger, preparing cash disbursements, posting such cash disbursements to the general ledger, and preparing the general bank account reconciliation.

With three people the following three duties should be segregated: (1) the opening of mail and entering of vendor invoices into the QuickBooks accounts payable module, (2) the printing of checks, (3) the approval of bills to be paid (should be done before the printing of checks), and (4) the signing of checks. After the checks are signed, they should not be returned to the individual printing the checks for mailing.

Establishment of the above procedures will help reduce the possibility of errors or the misappropriation of funds going undetected.

Payroll

Recommendation 6: Documentation supporting all hourly rate and salary changes should be prepared and maintained in employee personnel files.

During our testing of payroll transactions, we noted salaried educators' annual compensation was not documented in each individual's contract.

The documentation of pay rates in personnel files will help ensure that each employee is compensated correctly and that the appropriate documents are readily available to support payroll transactions.

Recommendation 7: Employee time sheets should be reviewed and approved prior to payroll processing.

During our testing of payroll transactions, we noted that time sheets are not regularly reviewed and approved by management.

Improvement of the reviewing process of payroll time sheets would further ensure the proper payment of hourly employees.

Recommendation 8: A compensated absence policy should be formalized and approved by the Board of Directors.

Presently, the School does not have a formal compensated absence policy and does not maintain written documentation of unused compensated absences.

The development of a formal compensated absence policy would clearly establish guidelines for vacations, sick leave, and other compensated absences. The maintenance of records for such absences would ensure appropriate payments for compensated absences.

SIGNIFICANT DEFICIENCIES—CONTINUED

Payroll—Continued

Recommendation 9: The School should remit the required pension payments to MPSERS on a timely basis.

During our testing, we noted that the School did not timely remit its required pension payments during the year ended June 30, 2007.

The timely remittance of pension payments would help ensure compliance with the pension plan established for the benefit of the School's employees.

BRICKLEY DELONG
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

November 21, 2007

Board of Directors
Mr. Thomas A. Hicks
Walden Green Montessori
Spring Lake, Michigan

We have audited the financial statements of Walden Green Montessori as of and for the year ended June 30, 2007 and have issued our report thereon dated November 21, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered Walden Green Montessori's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Walden Green Montessori's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Walden Green Montessori's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses, as Findings 1 - 6, to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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Compliance
As part of obtaining reasonable assurance about whether Walden Green Montessori's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Walden Green Montessori's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Walden Green Montessori's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

Walden Green Montessori
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2007

COMPLIANCE

NONE

SIGNIFICANT DEFICIENCIES

Fiscal 2007 Finding No. 1: Segregation of Duties

Criteria: Duties should be adequately segregated so as to separate incompatible duties.

Condition: Certain employees have access to both physical assets and the related accounting records for all phases of a transaction.

Cause: The School is a small organization with limited opportunities for the segregation of duties.

Effect: Errors in processing transactions and financial reporting and the misappropriation of assets could go undetected.

Recommendation: Segregation of duties should be strengthened, including but not limited to, the cash receipts and cash disbursements cycles.

School Response: The School agrees with the finding. During the year ending June 30, 2008, the School will implement procedures to increase the segregation of duties.

Fiscal 2007 Finding No. 2: Documentation of Approved Pay Rates

Criteria: Approved pay rates should be documented and maintained in employee personnel files.

Condition: The Board of Directors approved salaried educators' annual compensation during the year, but the amounts are not documented in each individual's contract.

Cause: The contract amounts were inadvertently not included in the contracts.

Effect: If questions arise about an employee's salary rate, there is no documentation in the contract to support that salary rate.

Recommendation: Documentation supporting all hourly rate and salary changes should be prepared and maintained in employee personnel files.

School Response: The School agrees with the finding. During the year ended June 30, 2008, the School will implement this recommendation.

Walden Green Montessori
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2007

Fiscal 2007 Finding No. 3: Review and Approval of Employee Time Sheets

Criteria: Employee time sheets should be reviewed and approved prior to payroll processing.

Condition: Employee time sheets are not regularly approved by management.

Cause: There was no established internal control procedure for such review and approval.

Effect: In the event of an inquiry for a time sheet approval, the documentation could possibly not be available.

Recommendation: Employee time sheets should be reviewed and approved prior to payroll processing.

School Response: The School agrees with the finding.

Fiscal 2007 Finding No. 4: Formalization of Compensated Absence Policy

Criteria: A compensated absence policy should be approved by the Board of Directors.

Condition: The School does not have a formal compensated absence policy approved by the Board of Directors.

Cause: The School management has not prepared a compensated absence policy document for review and approval by the Board of Directors.

Effect: A compensated absence policy formally approved by the Board of Directors would not be available upon request.

Recommendation: A compensated absence policy should be formalized and approved by the Board of Directors.

School Response: The School agrees with the finding.

Fiscal 2007 Finding No. 5: Data Processing Controls

Criteria: User access to the accounting system data base should be limited, and such data base back-ups should be stored off-site.

Condition: The School currently utilizes a single user version of its accounting software, and the School has not limited user access. Further, the associated data base is not stored off-site.

Cause: The School is in the process of transitioning to a network version of the software, and the School management had not yet addressed the user access and off-site storage issues.

Effect: Access to segments of the accounting system data base is not limited, and such data base would be lost in a catastrophic event at the School.

Recommendation: The data processing controls over user access and off-site storage should be improved.

School Response: The School agrees with the finding. During the year ended June 30, 2008, the School will implement this recommendation.

Walden Green Montessori
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2007

Fiscal 2007 Finding No. 6: Financial Statement Preparation

Criteria: The preparation of the formal financial statements should have documented control procedures.

Condition: There are currently no internal controls related to the preparation and review of the formal year end financial statements.

Cause: The School is a small organization with limited resources and personnel have difficulty in establishing and maintaining effective internal controls related to the preparation and review of the formal financial statements.

Effect: There could be errors and omissions in the financial statements that go undetected.

Recommendation: The School should review its procedures surrounding the preparation of year end financial statements to include the appointment of an individual with the requisite technical skills and experience to review the formal year end financial statements and accompanying footnotes, in relation to required disclosures in accordance with generally accepted accounting principles.

School Response: The School agrees with the finding.